



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D C. 20548

CIVIL DIVISION

AUG 12 1969

Mr. Theodore M. Berry  
Director, Community Action Program  
Office of Economic Opportunity  
Washington, D. C. 20506

Dear Mr. Berry:

The General Accounting Office has made a limited review of certain aspects of the Community Action Program (CAP) carried out by the Leech Lake Reservation Business Committee (RBC), Cass Lake, Minnesota, an Office of Economic Opportunity (OEO) grantee and the Community Action Agency (CAA) for the reservation. Our review was made pursuant to requests by two members of the Congress and certain members of the Leech Lake Band of the Minnesota Chippewa Tribe. In our review, which was made during February and March 1969, we noted evidence of various questionable or improper activities. We are bringing these matters to your attention so that you may inquire further into them and take appropriate action.

The Leech Lake CAP is administered by an eight-member governing board, including the five elected members of the RBC and three elected non-Indian representatives. Since its inception in 1965 through February 28, 1969, \$3,307,128 in Federal funds had been expended for the CAP, including \$1,005,017 for Nelson Amendment, or Operation Mainstream, projects.

USE OF GRANT FUNDS FOR QUESTIONABLE  
OR IMPROPER PURPOSES

The following payments had been made by the CAA from grant funds for questionable or improper purposes.

- \$20,925 to members of the CAP governing board, including \$17,729 to RBC members serving on the governing board, for attendance at meetings during the 3-year period ended March 31, 1969. Of the \$20,925, only \$3,014 would be allowable under prescribed guidelines.
- \$47,262 for wages for skilled laborers to construct low-rent houses for which the RBC as developer, was to receive \$265,636 from the Public Housing Administration for furnishing the labor and materials to construct the houses. The responsibility for the low-rent public housing programs has since been transferred to the Housing Assistance Administration, Department of Housing and Urban Development.

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- \$24,685 for materials and services in connection with construction of a recreation-tourism complex for which the RBC has been awarded a combination grant and loan totaling \$707,000 from the Economic Development Administration, Department of Commerce. Of the \$24,685, \$17,145 was used to purchase gravel in March 1968 which, although delivered, had not been used as of March 1969; and \$1,654 was used to purchase lumber supplies which, although ordered on March 15, 1968, had not been delivered as of March 12, 1969. In addition, labor paid from Nelson Amendment funds was used by the RBC to begin site preparation for the complex.
- \$2,538 to the RBC for rent of a building that was constructed with materials and labor paid from CAP funds. Also, although under terms of the lease the \$175 monthly rental charge was to include utility services, we found instances where RBC utility bills were paid from CAP funds.
- About \$22,200 paid during 1967 and 1968 for hospitalization and medical insurance premiums for CAP employees, most of whom were Indians entitled to free medical and hospital care at the local U. S. Public Health Service Hospital. On April 1, 1968, medical insurance coverage for about 80 Operation Mainstream project employees was dropped because the Department of Labor, which assumed the sponsorship of the project on that date, would not approve the cost.
- \$1,000 to purchase an accounting machine for the credit union during the program year ended March 31, 1967. We were informed by a CAA official that the machine had never been used because personnel did not know how to operate it.
- \$1,190 to wire a house. We were informed by a member of the governing board that the RBC, the owner of the house, was renting it to VISTA volunteers.
- A \$70 refund of a duplicate payment for a posting tray for the credit union, which was deposited in the assets of the credit union and not returned to the CAA.
- \$489 recorded as an obligation in the program year ended March 31, 1968, but later canceled. Instead of returning the unused funds to OEO, the CAA transferred the funds to the following program year.

USE OF GRANT FUNDS SUBSEQUENT  
TO THE CLOSE OF PROGRAM YEARS

The CAA made various expenditures subsequent to the close of its program years ended March 31, 1967, and March 31, 1968, which were contrary to OEO guidelines or approved budgets and which should have been charged to the following program years' funds. Such expenditures reduce the amount of unexpended Federal funds remaining in the hands of the CAA at the close of the grant period that should be accounted for to OEO.

According to OEO instructions then in effect relating to financial transactions:

"Program expenditures may be made only during the grant period as set forth on the Statement of CAP Grant or as subsequently modified by OEO. Expenditures made before or after these dates will be disallowed. The effective date of a grant\*\*\*[and] the ending date can be modified by obtaining written agreement from OEO in advance. Funds obligated but not disbursed at the end of the grant period shall be liquidated (paid out) within 3 calendar months after the close of the grant period."

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"An 'obligation' is a specific commitment for which a need exists in the grant period and which is supported by approved contracts, purchase orders, requisitions, bills, or other evidence of liability consistent with the grantee's purchasing procedures, and for which the goods or services must have been received or rendered within the grant period (except that legitimate terminal liabilities of the grantee to third parties as a result of termination action shall be considered proper obligations of the grant period)."

In our selective review of expenditures of grant funds made subsequent to the close of program years, we noted the following transactions that were not in accordance with the above instructions.

Program year B (April 1, 1966, to March 31, 1967)

- \$2,643 for the purchase of office supplies. CAA records did not disclose the date of delivery but, based on the dates of invoices, it appeared that delivery and use of the supplies occurred after the close of program year B.
- \$1,200 for the rental of space for Head Start centers for the month of April 1967.

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- \$1,777 for various supplies for a component project which was terminated as of March 31, 1967.

Program year C (April 1, 1967, to March 31, 1968)

- \$900 for the purchase of culverts for the recreation-tourism complex for which the purchase order or other obligating documentation could not be located. According to information obtained from a CAA official in March 1969, the check, dated June 30, 1968, had not been released for payment pending the supplier's adherence to the specifications.
- \$1,200 for the rental of space for the Consumer Education project for program year D.
- \$489 for transportation and expenses of CAA employees attending training classes conducted from April through August 1968.

QUESTIONABLE PROJECT APPROVAL PRACTICES  
AND USE OF FUNDS FOR UNAUTHORIZED PURPOSES

The Project Manager of the Special Field Programs Division (SFPD) permitted the CAA to undertake two component projects using program year D funds without following prescribed program approval procedures in effect during that program year; and the CAA used or planned to use other program year D funds for purposes not authorized by OEO.

According to Analyst's Notebook No. 89, "Component Budget, CAP Form 25,"<sup>1</sup> the CAP Form 25 is to be used in a situation involving initial funding for a component or project. Also, Analyst's Notebook No. 84, "Instructions for Completing CAP Form 43, 'Component Budget Amendment',"<sup>1</sup> states that a new program must be approved on a CAP Form 25 even if the funds to be used are being reprogrammed from within the previously approved grant.

On January 13, 1969, the CAA submitted CAP Forms 43 to OEO requesting approval to undertake two projects--a Wild Rice Paddy Development Project in the amount of \$50,000 and a Youth Development Project in the amount of \$49,840, using program year D funds available in existing components. The program analyst for the Leech Lake CAP informed us that the two projects were "new projects." On March 6, 1969, the SFPD Project Manager approved the CAP Forms 43 for the projects.

Because these projects were new projects within the meaning of the Analyst's Notebook Nos. 84 and 89, it appears that approval of the projects

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<sup>1</sup>Analyst's Notebook Nos. 84 and 89 do not apply to program years beginning on or after January 1, 1969, per CAP Staff Instruction 6710-1A, dated September 9, 1968.

using CAP Forms 43 was improper.

In addition to the above projects, the CAA, on March 12, 1969, submitted a CAP Form 43 requesting approval to use \$41,850 remaining in its program year D Head Start project for the purchase of building materials for improvements (\$13,000) and for the purchase of equipment (\$28,850). The CAA stated on the CAP Form 43 that these expenditures were necessary "due to underestimate at time of funding."

On July 30, 1969, we were informed by the program analyst that the CAA's request had not yet been approved by the SFPD Project Manager and that the request to use \$28,850 to purchase equipment would not be approved.

In regard to the \$13,000 requested for building materials, the program analyst informed us that the CAA had already used the funds to finance part of the cost of a combination Head Start center--Legal Services office, and that the use of the \$13,000 would probably be approved retroactively pending clearance from OEO's General Counsel. The program analyst also stated that the \$28,850 may have already been used by the CAA for other purposes inasmuch as he had been informed that the CAA's CAP accounts had a negative balance.

#### OTHER MATTERS

We found internal controls were weak with respect to:

-- nonexpendable property. Property records were not always posted properly and physical inventories were never taken. In a test analysis, we found that property records had been established for only 69 of 77 musical instruments; and we were able to account for only 40 musical instruments through our inventory of instruments stored by the CAA and an analysis of sign-out registers. Also, little use was being made of the musical instruments, shop equipment costing \$18,288, and sewing equipment costing \$2,500 because the projects for which this equipment had been purchased were no longer in operation. The CAA, therefore, should be advised by OEO as to the disposition to be made of equipment no longer needed for project operations.

travel. No accounting control was maintained over travel advances. In some cases, employees with outstanding advances had failed to complete and file travel vouchers as evidence that the travel was actually performed. Air travel by RBC members of the CAA governing board was usually via first class rather than tourist or coach accommodations.

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Your comments and advice as to any action taken in the above matters will be appreciated.

Sincerely yours,

Henry Eschwege

Henry Eschwege  
Associate Director

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